



# FOCUS ON THE FISC

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## FROM THE DESK OF THE FISCAL OFFICER

We are pleased to present the last issue of Focus on the Fisc until after the legislative sessions. This issue provides information regarding the FY 17 Executive Budget that was released on February 13th, 2015. A detailed analysis of each agency will be available in the LFO's Analysis of the Executive Budget 2016 (Green Book). This issue contains information on the FY 16 Mid-Year Deficit Reduction (HB 122), FY 17 revenues, expenditures, SGF needed and budget challenges. The issue also contains analysis of general government agencies, Medicaid & Public Private Partnerships, the Minimum Foundation Program and Higher Education. The next issue will be published in FY 17.

## FOCUS POINTS

### FY 17 Executive Budget Overview

*Legislative Fiscal Office Staff*

#### FY 17 Projected Deficit

The state of Louisiana faces an unprecedented fiscal crisis as it approaches the final third of FY 16. As the legislature addresses a \$960.5 M deficit for the current fiscal year in the 2016 First Extraordinary Session, it faces a projected deficit greater than \$2 B in FY 17. In an effort to provide a clear indication of the fiscal situation, the Legislative Fiscal Office (LFO) presents the following summary detailing critical components of the shortfall regarding the current state fiscal situation.

The primary components relevant to the fiscal crisis are related to both revenues and expenditures. To understand the scope of the current situation, these two components are most easily discussed separately before converging to illustrate the overall size and scope of the total funding shortfall.

#### FY 17 Revenue

The Legislature met during the 2015 Regular Session under similar circumstances to the current year, attempting to address a substantial projected deficit in the ensuing fiscal year of approximately \$1.6 B. A number of bills affecting state revenue collections were enacted during the 2015 session. As a whole, these bills were estimated at that time to generate \$719.9 M of additional tax revenue in FY 16. These additional revenues largely supported supplemental appropriations contained in Section 18(D) of the general appropriations bill, Act 16 of 2015. A substantial portion of those revenues, \$464.4 M, provided budget support through dedicated means of finance, leaving \$255.5 M as state general fund-direct financing. These adopted revenue measures were forecast to impact revenues in the out-years as well, generating declining amounts of \$605.8 M in FY 17, \$587.8 M in FY 18, \$328.7 M in FY 19 and \$312 M in FY 20 compared to the FY 2015 revenue base.

At its meeting on 8/14/2015, the REC projected SGF (less Dedications) for FY 17 at \$9.307 B in order to reflect the SGF component of revenue measures adopted during the 2015 Regular Session, an increase of \$494.6 M above the prior revenue estimate adopted on 5/14/2015 (Table 1 on Page 2). However, due to a weakening economy and falling revenues related to the oil and gas industry, the state's fiscal outlook realized a precipitous decline. At the 11/16/2015 meeting the REC lowered its estimate for SGF collections to \$8.983 B, for a decline of \$324.1 M. The REC lowered its SGF estimate again at the 2/10/2016 meeting to

\$8.239 B. The February estimate represented a decline in SGF projected revenues by \$743.9 M compared to the November estimate and \$1.068 B compared to the revenue assumptions adopted during the 2015 Regular Session.

Revenue Estimating Conference (State General Fund less Dedications) Table 1		
	FY 17	\$ Change
Revised REC Estimate (5/14/2015)	\$8,812,700,000	-
Revised REC Estimate (8/14/2015)	\$9,307,300,000	\$494,600,000
<i>The revenue estimate adopted above on 8/14/2015 reflected anticipated revenue increases due to instruments adopted by the legislature during the 2015 Regular Session. Subsequent revenue estimates below on 11/16/2015 and 2/10/2016 revised projections based on performance of the state's economy and updated revenue forecasts.</i>		
Revised REC Estimate (11/16/2015)	\$8,983,200,000	(\$324,100,000)
Current REC Estimate (02/10/2016)	\$8,239,300,000	(\$743,900,000)
<b>FY 17 revenue decline compared to 8/15 post-session estimate</b>		<b>(\$1,068,000,000)</b>

#### FY 17 Expenditures

For FY 17, Governor Edwards identified an overall SGF expenditure need of \$10.246 B. Given the current FY 17 REC SGF estimate of \$8.239 B, this places the state fisc into a posture of addressing a shortfall of \$2.006 B through spending cuts, not funding increasing costs, revenue enhancements, or some combination of these options.

In constructing the executive budget recommendation, adjustments were made against the existing operating budget to increase expenditure authority for identified needs. Of the unfunded expenditure requirements outlined by the Governor's staff, the LFO has identified the most significant adjustments made to the executive budget recommendation prior to accounting for the projected drop in revenues as noted in Table 2 below.

#### Addressing Combined Budget Challenges in FY 17

Once the Division of Administration had fully funded the governor's identified, priority governmental expenditure requirements, it then applied a pro-rata reduction to most state agencies while ensuring that all constitutional requirements were provided with the minimum funding level. For most agencies, the pro-rata reduction represented 63% of their SGF with a lesser reduction of 24% for the Department of Corrections, DHH, Higher Education Institutions, the Health Care Services Division, the Judiciary and the Legislature.

DOA Identified Continuation Budget Needs (Table 2)	
<b>Existing Operating Budget as of 12/1/2015</b>	<b>\$8,560,149,964</b>
Fully fund projected Medicaid payments	\$975,876,063
Offset Student Assessment for a Valuable Education (SAVE)	\$350,000,000
State Debt Service Adjustment	\$211,409,572
Office of Revenue	\$51,804,416
FY 17 Minimum Foundation Program (MFP)	\$41,147,143
Taylor Opportunity Program (TOPS)	\$33,144,416
Other Miscellaneous	\$22,285,289
<b>Total Continuation Budget Need Identified</b>	<b>\$10,245,816,863</b>

#### Mid Year Deficit Reduction 2 with HB 122 Amendments

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To address the \$943 M shortfall recognized by JLCB on 2/13/2016, Governor Edwards proposed using the remaining available allotment from the Budget Stabilization Fund (\$128 M), the initial payment of the British Petroleum economic damages settlement (\$200 M), several tax increases/tax reform initiatives (\$294 M), and budget cuts to state agencies (\$89.8 M). The Governor issued Executive Order JBE16-04 reducing expenditures of state agencies by \$21.7 M, and JLCB approved an additional \$38.5 M at the 2/15/2016, meeting. The final component of the Governor's plan required approval of the full Legislature to effect additional reductions to state agencies totaling \$29.6 M.

House Bill 122 (Henry) increased the amount of reductions requiring legislative approval by \$84 M. Adjustments from House Floor amendments resulted in a total increase over the Governor's plan of \$76.7 M as noted in Table 3 to the right. House Bills 118 and 119 (Barras) address the Legislative and Judicial reductions with amounts matching the Governor's proposal.

Table 3				
Means of Financing	Governor's Plan	House Plans*	\$ Difference	%
State General Fund	(\$5,580,327)	(\$69,499,472)	(\$63,919,145)	1145%
Statutory Dedications	(\$5,662,751)	(\$9,364,268)	(\$3,701,517)	65%
Fees and Self-Gen.	(\$18,310,269)	(\$27,439,730)	(\$9,129,461)	50%
<b>Grand Total</b>	<b>(\$29,553,347)</b>	<b>(\$106,303,470)</b>	<b>(\$76,750,123)</b>	<b>260%</b>
*Includes Engrossed HB 122, HB 118, and HB 119.				

Nearly ninety percent (90%) of the \$76.7 M was allocated to six departments including:

*Department of Education - \$51.7 M*

As it left the Appropriations Committee, HB 122 included a reduction of \$44 M for the MFP. These funds were included in the supplemental section of HB for FY 16 and were funded outside of the MFP. HB 122 Floor amendments included language prohibiting the allocation of these reductions to local educational agencies or early childhood programs. As such, the reduction will impact the Department of Education's activities, effectively eliminating all of the remaining SGF for the department. The reductions do not take into consideration the supplemental MFP need of approximately \$14 M required as a result of the revised student enrollment counts based on the "more or less estimated" language in HB 1.

*Executive Department - \$6.5 M*

Additional reductions were made to DOA (\$2.6 M), LA Stadium and Exposition District (\$2.5 M), and Military Affairs (\$607 K).

*Department of Health and Hospitals - \$4.7 M*

The Original House Bill 122 reduced the Parish Human Services Districts, Office of Elderly Affairs, Mental Health Advocacy Service, and the Office for Citizens w/Developmental Disabilities by \$3.72 M. The House Floor reversed this and allocated the reduction to the Office of Behavioral Health.

*Correction Services - \$2.5 M*

Includes \$1 million reduction to both private prisons (Allen and Winn Correctional Centers).

*Other Requirements - \$2.3 M*

LED Debt Service was reduced another \$1.6 M and Sales Tax Dedications (Local Hotel/Motel tax) reduced another \$673,276.

*Department of Culture, Recreation, and Tourism - \$1.6 M*

Additional reductions were made to the Office of Tourism (\$1 M), Office of State Parks (\$525 K) and the Office of State Museums (\$67 K).

Table 4 to the right reflects the total level of reductions by department as of HB 122 Engrossed compared to the Governor's Proposed reduction Plan.

Table 4				
Schedule	Governor's Entire Proposal	Revised House Plan	\$ +/- House over Governor	% +/-
Executive Department	(\$8,317,896)	(\$14,808,842)	(\$6,490,946)	78%
Veterans Affairs	(\$5,100,000)	(\$5,100,000)	\$0	0%
Secretary of State	(\$1,140,143)	(\$2,043,261)	(\$903,118)	79%
Office of the Attorney General	(\$663,567)	(\$998,124)	(\$334,557)	50%
Lieutenant Governor	(\$13,051)	(\$13,051)	\$0	0%
State Treasurer	(\$148,088)	(\$898,088)	(\$750,000)	506%
Agriculture and Forestry	(\$345,858)	(\$566,887)	(\$221,029)	64%
Commissioner of Insurance	(\$371,050)	(\$421,050)	(\$50,000)	13%
Economic Development	(\$682,083)	(\$1,279,073)	(\$596,990)	88%
Culture Recreation and Tourism	(\$1,223,556)	(\$2,844,299)	(\$1,620,743)	132%
Transportation and Development	(\$18,961,439)	(\$19,350,622)	(\$389,183)	2%
Corrections Services	\$0	(\$2,500,000)	(\$2,500,000)	-
Public Safety Services	(\$3,996,848)	(\$5,457,121)	(\$1,460,273)	37%
Youth Services	(\$2,389,378)	(\$2,400,582)	(\$11,204)	0%
Health and Hospitals	(\$6,735,046)	(\$11,404,310)	(\$4,669,264)	69%
Children and Family Services	(\$4,170,999)	(\$4,187,804)	(\$16,805)	0%
Natural Resources	(\$426,156)	(\$927,817)	(\$501,661)	118%
Revenue	(\$1,339,249)	(\$2,008,874)	(\$669,625)	50%
Environmental Quality	(\$182,037)	(\$263,905)	(\$81,868)	45%
LA Workforce Commission	(\$391,130)	(\$459,126)	(\$67,996)	17%
Wildlife and Fisheries	(\$706,344)	(\$1,059,517)	(\$353,173)	50%
Civil Service	(\$169,851)	(\$285,158)	(\$115,307)	68%
Higher Education	(\$4,020,305)	(\$4,772,375)	(\$752,070)	19%
Special Schools and Commissions	(\$2,307,105)	(\$2,392,776)	(\$85,671)	4%
Education	(\$4,402,430)	(\$56,139,269)	(\$51,736,839)	1175%
LSU HCSD	(\$1,297,314)	(\$1,387,830)	(\$90,516)	7%
Other Requirements	(\$8,812,092)	(\$11,093,377)	(\$2,281,285)	26%
Ancillary Appropriations	(\$665,008)	(\$665,008)	\$0	0%
Non-Appropriated Req.	(\$3,600,000)	(\$3,600,000)	\$0	0%
Judicial Expense	(\$3,991,120)	(\$3,991,120)	\$0	0%
Legislative Expense	(\$2,033,243)	(\$2,033,243)	\$0	0%
Capital Outlay	(\$1,176,000)	(\$1,176,000)	\$0	0%
<b>Grand Total</b>	<b>(\$89,778,386)</b>	<b>(\$166,528,509)</b>	<b>(\$76,750,123)</b>	<b>85%</b>



GENERAL GOVERNMENT

**FY 17 General Government Overview**

Legislative Fiscal Office Staff

Table 5 below displays the pro-rata SGF reduction by state department.

*Department of Military Affairs - \$20.2 M*

Military Affairs reports that the proposed SGF reduction would impact its readiness and capability to respond to emergencies. Military Affairs also indicates that the reduction would require the closure of 44 armories in 34 parishes statewide, impact federal readiness status for the La. Army National Guard, closure of power projection platforms at Jackson Barracks in New Orleans and the Gillis W. Long Center in Carville, closure of the Regional Staging Area at Roseland and all five commodity warehouse distribution centers, impact the readiness of the Air National Guard's Homeland Defense Alert Mission, curtail contract oversight of the M6 explosive cleanup process at Camp Minden, elimination of the Special Reaction Team, closure of 2 Youth Challenge Programs at Gillis W. Long and Camp Minden, relocation of the STARBASE Program from Jackson Barracks, and elimination of approximately 405 T.O. positions.

*LA Public Defender Board (LPDB) - \$20.9 M*

Affects the statutorily dedicated LA Public Defender Fund, which receives monies via SGF deposits, and represents a 62% reduction of the fund from its FY 16 appropriation (\$32.5 M). The fund provides for the LA Public Defender Board's normal operating expenses, including assistance to district defender offices and its capital defense program. The LPDB estimates that 33 district defender offices will restrict services at a minimum with 11 potentially ceasing operations as a result of the reduced funding. The Sixth Amendment to the U.S. Constitution affords criminal defendants a right to counsel and a speedy trial. Additionally, the LA Constitutional Article 1, Section 10 states that legislature shall provide for a uniform system for securing and compensating qualified counsel for indigents. As a result, failure adequately to fund the Board will likely result in litigation.

*Office of State Police (OSP) - \$77.1 M*

The Executive Budget recommendation reduces the OSP by \$77.1 M in FY 17. The reduction is derived from a combination of SGR (\$47.2 M) and 2 statutorily dedicated funds, the Insurance Verification System Fund (\$24.9 M) and the Debt Recovery Fund (\$5 M). This reduction totals approximately 25% of OSP's FY 16 budget and would have programmatic impacts throughout State Police's operations. If the reduction is realized in FY 17, OSP anticipates program impacts to be widespread and significant. Public safety

Pro-rata SGF Reduction by State Department (Table 5)		
GENERAL APPROPRIATIONS BILL	Amount	Reduction
Executive Department	(\$78,223,697)	63%
Veterans Affairs	(\$3,508,155)	63%
Department of State	(\$2,477,907)	63%
Department of Justice	(\$8,006,740)	63%
Lt. Governor	(\$790,671)	63%
Agriculture and Forestry	(\$16,956,137)	63%
Treasury	\$0	-
Public Service Commission	\$0	-
Insurance	\$0	-
Economic Development	(\$12,404,823)	63%
Culture Recreation & Tourism	(\$23,974,865)	63%
Transportation & Development	\$0	-
Department of Corrections	(\$116,114,862)	24%
Public Safety Services	\$0	-
Office of Juvenile Justice	(\$75,834,483)	63%
Department of Health & Hospitals	(\$795,648,150)	24%
Department of Children & Family Services	(\$92,664,980)	63%
Department of Natural Resources	(\$5,218,098)	63%
Department of Revenue	(\$28,744,050)	63%
Department of Environmental Quality	(\$275,593)	63%
Workforce Commission	(\$5,140,229)	63%
Department of Wildlife & Fisheries	\$0	-
Civil Service	(\$3,371,768)	63%
Higher Education	(\$413,506,478)	24%
Department of Education	(\$82,820,255)	63%
Special Schools & Commissions	(\$25,427,617)	63%
Health Care Services Division	(\$6,475,404)	24%
Other Requirements	(\$152,965,888)	63%
<b>TOTAL</b>	<b>(\$1,950,550,850)</b>	
<b>OTHER APPROPRIATION BILLS</b>		
Judiciary	(\$38,361,338)	24%
Legislative	(\$17,604,675)	24%
<b>TOTAL</b>	<b>(\$55,966,013)</b>	
<b>GRAND TOTAL</b>	<b>(\$2,006,516,863)</b>	

services would be reduced statewide, including layoffs of civilian personnel and State Troopers. Additionally, funding for the OSP Training Academy (\$5 M) and a portion of the State Trooper pay grid (\$11 M) pursuant to LA R.S. 47:1676(E)(1) & (2) is not built into OSP's FY 17 budget recommendation. **In order to continue providing the base level of existing services, OSP will require an alternate means of finance (presumed to be SGF) to supplant the reduction in SGR and statutorily dedicated funds.**

#### *Corrections Services - \$116.1 M*

The Department's proposals and estimated reductions include: amending sentencing requirements to allow the release of 11,600 non-violent, non sex-crime offenders 1 year early (\$52.3 M); closing 5 prisons: Rayburn, Avoyelles, Dixon, and the privately run Winn and Allen (\$35.2 M); eliminating increases for equipment (\$4.6 M) and pharmaceutical supplies (\$2.9 M); ceasing all religious, athletic, education, and substance abuse programming (\$2 M) (maintains the Mental Health Programs); furloughing every non-Security, non P&P agent employee 1 day per pay-period (\$1.8 M); terminating 48 probational appointments (\$1.7 M); and ceasing all overtime (\$1.5 M).

#### *Office of Juvenile Justice (OJJ) - \$75.8 M*

OJJ proposes reducing Secure Facilities (Custody) from 349 beds to 192 beds resulting in the closure of one of the four facilities. Group Homes (Custody) will go from 300-350 beds to zero, completely eliminating the 18 contracted providers across the state. The Supervision Activity currently has a capacity to serve 4,000 offenders in 11 offices statewide which will be reduced to an estimated 350. This will also result in the closure of all 11 regional offices impacting offenders who are on probation, parole, under an information adjustment agreement or a deferred agreement. Combined, these actions will reduce the number of authorized positions by 563 to a new total of 403.

#### *Local Housing of Adult Offenders - \$102.3 M*

At the recommended funding level Corrections anticipates reducing the per diem rate from \$24.39 to \$9.39 (\$81 M) (requires legislative action to change RS 15:824(B)(1)(a)). The Transitional Work Program (Non-Contract) per-diem would be reduced from \$14.39 to \$2.39 (\$13.6 M), (can be lowered administratively). Finally, the department proposes closing all Reentry & Day Reporting Center programs (\$9.2 M).

#### *Mental Health Advocacy Services - \$2.1 M*

The agency reports that the proposed reduction would result in the need to close offices and lay off staff. At the recommended funding level, the agency estimates the need to close four to six of its seven offices across the state and reduce its authorized positions by 20-23 out of its allotment of 34. The reduction will impact the agency's ability to provide legal counsel to children involved in children protection and mental health cases. Remaining staff after the reduction and closure of offices would not be funded sufficiently to handle the existing caseload, and would not have sufficient travel expenditure authority to meet statewide need and demand. LA's Child Advocacy Program is reportedly the only of its kind in the country that provides continuous legal representation to assigned children.

#### *Department of Agriculture & Forestry - \$17.0 M*

The department's reduction is allocated department-wide and by program: Management & Finance (\$7 M), Agricultural & Environmental Sciences (\$500,000), Animal Health & Food Safety (\$2.3 M), Agro-Consumer Sciences (\$500,000), Forestry (\$6.5 M), and Soil & Water Conservation (\$200,000) programs. The department estimates that 133 of its 555 current employees, or 24% of its workforce, would be reduced as a result. In addition, the department estimates that the reduction of approximately \$990,000 in pass through funds to LA's 44 Soil and Water Conservation Districts would impact the Soil & Water Conservation Program's ability to draw down approximately \$75 M in federal conservation program funds, resulting in an estimated economic impact of \$350 M statewide.

#### *Local Housing of State Juvenile Offenders - \$1.8 M*

SGF dedicated through Local Housing of Juvenile Offenders allow the Office of Juvenile Justice to partner with parish and local detention facilities for housing juvenile offenders committed to the state's custody and waiting transfer to Youth Services' physical custody. OJJ reimburses these local detention centers at rates set by statute. (\$23.39 for pending non-secure, \$112.78 for pending secure). Any reduction in the budget will result in fewer youth being served in local detention while waiting for transfer to OJJ custody creating a higher risk to public safety.

*Secretary of State - \$2.2 M*

The Secretary of State's SGF reduction will primarily affect its Museums Program. Potential programmatic impacts include the limiting of museum hours and operating days, closure of museums, and sale of museums to local governing authorities.

*Culture, Recreation & Tourism – Office of State Parks - \$14 M*

The agency reports that it will not be able to address the backlog of repair and maintenance projects for the aging system that includes almost 43,000 acres, 211 cabins, 26 group camps and lodges, 1,748 campsites, 54 rental pavilions, and other facilities totaling 1.2 million square feet and 110 miles of Park maintained roads as a result of this reduction. *This reduction may also result in an indeterminable number of park closures.*

*Executive Office - \$4.3 M*

The Executive Office reports that the proposed 64% reduction of SGF support will severely curtail and limit the operational capacity of the Governor's Office. The agency reports it would likely have to downsize by eliminating approximately 50 of its 74 authorized positions, evaluating each position in an effort to maintain the capability to perform the constitutional duties of the governor. The agency reports that the Governor's Office of Community Programs (GCP) will be adversely impacted through the reduction of federal match, with an accompanying negative impact to its ability to coordinate effective and efficient services to the citizens of the state. GCP oversees and coordinates the work of the Office of Elderly Affairs, Office of Disability Affairs, Statewide Independent Living Council, Children's Cabinet, Interagency Coordinating Council, LA Youth for Excellence, Drug Policy Board and the Women's Policy Board. The office serves as the primary point of contact between the executive office with advocacy organizations, nonprofits, charities, churches and faith-based initiatives across the state to assist in connecting citizens with resources in their area to help address needs.

*Division of Administration - \$31.5 M*

The Division of Administration is the central management and administrative support agency for the state of LA. The agency is comprised of multiple sections, some functioning in a control-oriented capacity and others in a service-oriented one. The Division of Administration provides the following services to the executive branch of government: Financial Services, Property Control, Internal Controls and Community Development (administration of block grants). At the time of publication of this document, the agency is still assessing the estimated impact of the proposed SGF reduction and will report to the LFO when a plan is finalized.

*Office of the State Inspector General - \$1.3 M*

The State Inspector General reports that the proposed reduction of SGF support would result in the elimination of approximately 12 of the agency's 16 authorized positions and associated operating expenses. The agency currently has 11 criminal investigators, 2 forensic auditors, 1 general counsel, 1 administrative assistant and the Inspector General. All of these positions are currently filled. The Inspector General reports the proposed reduction will have a severe negative impact on the agency's ability to effectively investigate governmental fraud, waste and corruption.

*Department of Natural Resources – Office of Conservation - \$2.3 M*

DNR reports the proposed reduction in SGF expenditure authority will result in a direct impact on program activities and a reduction of approximately 32 T.O. positions. The position eliminations will impact activities related to ground water inspection, oil and gas field inspections, commercial waste, exploration and production waste, underground injection control, inspection and enforcement, and production audit. DNR reports it would also close two of its three Office of Conservation district offices.

*Department of Natural Resources – Office of Mineral Resources - \$2.7 M*

DNR reports that the proposed reduction of SGF, coupled with declining revenues in statutory dedications related to oil and gas drilling and exploration, will result in the necessity to lay off approximately 50% of its staff, approximately 31 or 32 of existing 61 authorized positions. The department reports significant impacts on its abilities to oversee and administer royalty collection and audit functions, lease management, geological and engineering review, and seismic permitting.

## HEALTH & HOSPITALS

### Health & Hospitals/Children & Family Services Overview

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#### Medicaid Overview

The Governor's Executive Budget provides an additional \$276.8 M in SGF (\$1.5 B Total increase in funding) for Medicaid in FY 17. Total Medicaid funding for FY 17 represents a 19% increase from the FY 16 Existing Operating Budget (14.8% increase in SGF), after incorporating an overall SGF reduction of \$679,095,432 (and associated federal match).\*

*\*Note: There is no specific cut plan reflected in the Executive Budget related to the \$679 M SGF statewide cut applied to Medicaid. Although this cut is allocated by program in which the largest cut (approximately 80%) is in Payments to Private Providers, the Executive Budget does not delineate how these cuts will be allocated between specific providers. DHH has indicated certain targeted cuts and program eliminations, which would be limited to certain optional programs. A cut plan provided by DHH indicates reductions in payments to Public Private Partnership hospitals, certain waiver programs cuts and eliminations, elimination of the Pediatric Day Health Care Program, elimination of the Program of All Inclusive Care for the Elderly (PACE), and reducing managed care organization (MCO) Per Member Per Month Payments. DHH's initial cut plan does not include across the board rate cuts.*

In addition, the Medicaid budget does not include an associated federal matching fund reduction (as these SGF revenues are used to draw federal Medicaid match to make provider payments) tied to the SGF cut. The total impact of this reduction is \$1.79 B for FY 17 (loss of state and federal funds).

Certain significant increases reflected in the FY 17 Medicaid budget include funding projected growth for Public Private Partnerships, projected growth in Bayou Health funding, and funding for a FY 16 Bayou Health payment obligation pushed into FY 17 (1 additional Bayou Health check write added in FY 17), MCO payments for Medicaid expansion for individuals to 138% of the federal poverty level, various waiver slot increases, and increases in projected pharmacy costs and provider rate increases, and funding the backfill of revenues reduced in FY 16 as part of the FY 16 mid year deficit elimination plan. *These specific Medicaid increase adjustments for FY 17 are reflected below:*

#### Significant FY 17 SGF Increases

- \$330.8 M - Replace funding reduced in the FY 16 mid year deficit plan
- \$195.3 M - Bayou Health managed care capitation rate payments
- \*\$167.0 M - Swap non-recurring one-time revenues for SGF
- \$136.1 M - Value of FY 16 pushed check write (June 2016) into FY 17
- \$38.2 M - Supplemental Medicaid payments for Public Private Partnerships
- \$24.3 M - Fee for Service increase (includes Pharmacy, PACE, and LT-PCS)
- \$21.3 M - Rate increase (FQHC's, RHC's, Hospice, Rural H's, Nursing F's)
- \$21.0 M - Rate increase to Home and Community Based Service workers
- \$20.3 M - Waivers (NOW, Supports, Children's Choice, Community Choices)

\*Another adjustment that increased the level of SGF appropriation in FY 17 resulted from the replacement of \$166 M in one time revenues used in FY 16, of which approximately \$62 M in one time revenue appropriated in Medicaid did not materialize in FY 16.

#### FY 16 significant one-time revenue used for recurring expenditures:

- \$52,000,000 - State Tax Amnesty Program revenues
- \$114,556,548 - Overcollections Fund revenues
- \$166,556,548 - Total

#### Public Private Partnership Hospital Funding

The FY 17 Medicaid budget includes an additional \$101.1 M in supplemental Medicaid payments (\$38.2 M SGF) for public private partnerships projected growth. However, total Disproportionate Share Hospital (DSH) funding associated with the partnership hospitals is reduced by \$102.1 M for FY 17, for a total net decrease in DSH and supplemental funding of \$1.02 M for the partnerships in FY 17. Funding reflected



below does not include Title XIX Medicaid claims payments. It is assumed the DSH reductions to partners will be offset in part with Medicaid claims payments as the result of increased claims from Medicaid expansion.

\$1,209,703,102 - FY 16 PPP Funding Budgeted  
\$1,208,682,021 - FY 17 PPP Funding Appropriated

*Note: Although the \$679 M SGF cut in Medicaid is not directly allocated across specific providers in the Executive Budget, **information provided by DHH indicates any cuts to Medicaid are anticipated to materialize in a reduction to Public Private Partnership payments.***

#### *Public Private Partnership Cooperative Endeavor Agreements*

The Cooperative Endeavor Agreements (CEAs) for each of the partnerships have specific stipulations in regard to termination of these partnerships. For six of these partnerships, the CEAs include a clause that allows the private partner to terminate the contract without cause provided they give Louisiana sixty days notice of their intent (Table 6).

The private partners that have this option include Children Hospital (New Orleans), Biomedical Research Foundation (Shreveport/Monroe), Southwest Louisiana Hospital Association (Lake Charles), Lafayette General Hospital System (Lafayette), Our Lady of Angels (Bogalusa), and Our Lady of the Lake (Baton Rouge). CHRISTUS and Rapides Healthcare System (Alexandria) and Southern Regional Medical Corporation (Houma) CEAs do not have specific language in the CEA that allows the private partner to terminate the contract without cause. However, there are several stipulations that allow either of these two partners to terminate the contract provided they give advanced notice. The CEA between CHRISTUS and Huey P. Long has a stipulation that if "inadequate" funding is received by Rapides or CHRISTUS from the state, the CEA can be terminated after the private partner has given the state 180 days notice.

Overview of Private Public Partnerships Options to Terminate Without Cause (Table 6)			
Private Partner	LSU Hospital	Termination Without Cause Option	# Days Needed to Exit CEA without Cause
Louisiana Children's Medical Center and University Medical Center Management Corporation	Medical Center in New Orleans	Yes	60 Days
Biomedical Research Foundation of Northwest Louisiana and BRF hospital Holdings, L.L.C.	HSC Shreveport and EA Conway Medical Center	Yes	60 Days
Southwest Louisiana Hospital Association dba Lake Charles Memorial Hospital	W.O. Moss Regional Medical Center	Yes	60 Days
Lafayette General Hospital System and University Hospital and Clinics	University Medical Center (UMC)	Yes	60 Days
Our Lady of Angels and Franciscan Missionaries of Our Lady Health System	Washington St. Tammany Medical Center ("Bogalusa")	Yes	60 Days
Our Lady of the Lake	Earl K. Long (Baton Rouge)	Clinical Services – Yes; CEA can terminate from inadequate funding	Clinical Services (w/out cause) - 90 days CEA from inadequate funding – 180 days
CHRISTUS Health Central Louisiana and Rapides Healthcare System	Huey P. Long	No, but can terminate from inadequate funding from the state	No without cause option, but 180 days for inadequate funding
Southern Regional Medical Corporation and Hospital Service District #1 of Terrebonne Parish	Leonard J Chabert Medical Center	No, but can terminate from inadequate funding from the state	No without cause option, but 90 days for inadequate funding (after three years, 60 days)

These CEAs stipulate the payment methodology and specific amounts that are required based on the agreed upon Medicaid/Medicare Cost Report and the cost analysis worksheet that the partner submits to the state. Based on conversations with entities involved with these CEAs, the Legislative Fiscal Office has been informed that since these private partners are expecting to be reimbursed for all costs associated with their service (as required by the CEA) and any funding below this level could be interpreted as "inadequate."

In the event a private partner seeks to terminate the contract, the CEA dictates both parties are involved in a "wind-down" period where both parties begin the transition of operations while ensuring services will be provided to the public. If negotiations between LSU and private partner are not successful, LSU and the state will have 60-180 days to 1) contract out operations to an outside private entity to assume operations with the State providing operating capital for operations, 2) hire new public employees and assume



operations within the sixty days with the State providing operating capital for operations, and 3) LSU would seek approval from the Legislature to close facility. The CEA between BRF and LSU requires a committee of 6 (LSU, BRF & DOA, 2 members each) to over see the transition and requires LSU to name successor corporation and members of the Board.

#### *Private Partner Lease Payments*

The state receives lease payments from the private partners to use state hospital facilities. This includes Children's Hospital, Our Lady of the Lake, Biomedical Research Foundation, University Hospitals and Clinics, Southwest Louisiana Hospital Association, and Our Lady of Angels.

In the event a partnership is terminated, the lease payments from the partner would cease and as a result the state funding would be lowered. The adopted Revenue Estimating Conference forecast includes \$190 M of lease payments for the current year and \$160 million for FY 2016-2017.

Based on testimony provided by the private partners, the state would be expected to reimburse these partners for any prepaid rental payments (advanced lease payments), equipment acquisitions made by the private partner, and/or any capital expenditures made by the private partners. University Medical Center CEO, Greg Feirn, has stated in committee that there is nearly \$385 M worth of prepaid rental and capital improvements made by Children's Hospital at the new UMC Hospital that the state would be obligated to reimburse to Children's Hospital. Lease payments by fiscal year are displayed in Table 7 to the right.

Overview of Lease Payments Deposited into the State Treasury (Table 7)				
	2012-13	2013-14	2014-15	2015-16
	Actual	Actual	Actual	Appropriated
Total Lease Payments Received*	\$283,379,817	\$132,852,741	\$135,560,763	\$190 M**
*Source: Treasurer's reports** Revenue Estimating Conference Adopted Forecast				

## EDUCATION

### **FY 17 Minimum Foundation Program (MFP)/ Department of Education**

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#### *Minimum Foundation Program*

The Minimum Foundation Program (MFP) provides for an equitable distribution of state funds to local school districts. The MFP is the major source of state funding to local schools. For FY 16, the MFP is funded at \$3.678 B; \$3.391 B in SGF and \$287.16 M in Statutory Dedications from the Support Education in LA First Fund (\$109.7 M) and Lottery Proceeds Fund (\$177.4 M). The FY 17 Executive Budget includes an adjustment of \$20.7 M for an anticipated increase of 4,595 students. Additionally, there is a \$5.2 M MOF swap replacing SGF with Lottery Proceeds funds (\$3.7 M) and SELF funds (\$1.5 M) based on the most recent Revenue Estimating Conference (REC) forecast. FY 17 recommended funding totals \$3.69 B; \$3.40 B SGF, \$181.1 M Lottery Proceeds Fund and \$111.2 M SELF Fund.

The FY 16 MFP included a 1.375% inflation adjustment, which was funded outside of the formula in a supplemental appropriation. HR 231 of 2015 (Edwards) urged and requested BESE to incorporate the supplemental funding into the FY 17 resolution. As such, the recommended budget annualizes this funding into the MFP base and it is anticipated that the proposed MFP for FY 17 to be considered by BESE on March 4 will incorporate this adjustment into the formula for a per pupil cost of \$4,015. This represents standstill funding for the MFP.

#### *Department of Education*

Department of Education (DOE) FY 17 funding totals \$1,563 B (\$51.6 M SGF, \$317.7 M IAT, \$57.4 M SGR, \$14.8 M Stat Ded and \$1,121 B Federal). This represents a total reduction of \$137.8 M (including \$84.9 M SGF). In addition to other budget adjustments, the SGF reductions made as part of the budget balancing plan total \$82.8 M (63%). To date the DOE is still formulating specific expenditure reduction plans. However, a 63% reduction in state funds will have a significant impact on the operations of the department; in particular **State Activities** will be reduced by \$21.7 M. In addition to the elimination of multiple contracts for the development of instructional materials, formative assessments, professional development and training, contracts tied to student testing will likely be affected. There are approximately five contracts associated with annual student testing totaling \$21.6 M (includes \$8.6 M

SGF). Annual testing is mandated by the federal Every Student Succeeds Act (ESSA) and failure to meet the federal testing requirement could jeopardize the receipt of over \$500 M in federal funds which are distributed to local school districts.

#### *Subgrantee Assistance*

Subgrantee Assistance will be reduced by \$40.7 M. Activities funded in this program include the LA4 Program and the Student Scholarship for Educational Excellence Program (SSEEP) (vouchers). *The Cecil J. Picard LA 4 Early Childhood Program* is the primary preschool program in the state, serving approximately 16,300 children. It provides up to ten hours of early childhood education and before and after activities daily to four-year-olds from disadvantaged families. The *Nonpublic Schools Early Childhood Development Program (NSECD)* provides low-income families the opportunity to attend state-approved private preschools and childcare centers and serves approximately 1,500 preschool children annually. Current per child funding is \$4,580.

For FY16, the LA4 Program is funded at \$76.9 M (\$9.4M SGF and \$75.5M TANF) and the NSECD is funded at \$7.3 M SGF for total LA4 program funding of \$84.3M. LA4 SGF expenditures are also used as the Maintenance of Effort (MOE) or matching funds to qualify the state's draw of federal Temporary Assistance for Needy Families (TANF) and Child Care and Development Fund (CCDF) block grants. Failure to certify state match and/or MOE could potentially reduce the availability of these federal funds.

SSEEP allows selected students to attend participating non public schools with tuition expenses paid by the state. FY 16 funding is \$42 M. There were 7,110 students enrolled in the first quarter ending 9/21/2015 for an annualized cost of \$41.7 M. Reductions to this program would result in students returning to public schools, which would subsequently increase the MFP costs but at a lower per pupil cost than what is currently being paid to voucher schools. As a result there would likely be a savings to the state. The state will pay \$8.3 M more to the voucher schools than it would have paid through the MFP in the current year.

### **FY 17 Higher Education**

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The Existing Operating Budget as of 12/1/2015 totals \$2.634 B (including \$649.8 M SGF and \$350 M SAVE). The FY 17 Executive Budget recommends a total budget of \$2.243 B, reflecting net reductions of \$391.6 M in SGF equivalent (\$79 M SGF, \$358.2 M Stat Ded and \$5 M Federal funds) and a \$50.4 M increase in self-generated revenues from fees associated with Act 377 of 2015. Total Authorized Positions of 19,483 have been moved off budget.

Significant adjustments include the elimination of SGF (\$413.5 M) as part of the statewide reductions implemented to address the SGF shortfall. This represents a \$180.3 M reduction (for an average 25%) for institutions from the Higher Ed funding formula. While these reductions may be somewhat offset by the increase in fee revenue, not all institutions are impacted by the increases and any actual fee collections may be reduced by hardship waivers, fee exemptions and other forms of student aid.

Additional reductions of \$51.3 M in FY 16 line item appropriations impact equity formula funding for LCTCS (\$4.4 M), STEM funding for Southern and Grambling (\$6.5 M), Pennington Biomedical Research Center (\$3.9 M), operating support for LSUHSC in Shreveport (\$31 M), research programs at LSUHSC New Orleans (\$3.5 M), and the LSU Ag Center (\$2 M). Statutory dedications from the SAVE initiative (\$350 M) were replaced with SGF prior to the allocation of statewide adjustments.

TOPS funding for FY 16 totals \$265.2 M (\$200.1 M SGF and \$65.1 M Stat Ded). FY 17 projected need is \$293.3 M, however, all SGF funding has been eliminated (\$233.2 M) leaving the program funded solely with statutory dedications out of the TOPS Fund in the amount of \$60.3 M. Based on this 80% reduction, OSFA projects that of the current 46,155 recipients just over 18% (8,581) will continue to receive funding. GO Grant funding is anticipated to remain at a standstill level (\$26.4 M).

Table 8 on the next page illustrates the potential impacts of the SGF reductions on individual institutions and systems. The recommended budget does not allocate specific amounts of SGF to individual institutions or systems. Instead, the recommended budget assigns all the SGF to the Board of Regents (BOR) for allocation after passage of the appropriations bill. The SGF allocation for each institution/system in FY 17 contained in the table is based on the same relative portion of their SGF allocation from FY 16.

Furthermore, the table assumes that the Legislature will fully fund the SGF requirements related to the GO Grant Scholarship Program (\$26.4 M) within the LA Office of Student Financial Assistance (LOSFA) and will not fund the SGF portion of TOPS (\$233.2 M). Excluding LOSFA, the table assumes that remaining higher education institutions and systems will receive a 25% pro rata reduction in SGF. Some institutions may receive a higher reduction as a result of the \$51.3 M reduction identified in the paragraph above. In reality, the funding formula adopted by the BOR WILL NOT allocate funding to institutions and systems on a uniform basis. However, the table is intended to GENERALLY illustrate the magnitude of the reductions in SGF faced by institutions and systems in the proposed budget.

**Higher Education - State General Fund Equivalent Summary by Institution and System (FY 16 Existing Budget to FY 17 Recommended Budget) Equal % Reductions in FY 17 Prior to Allocation of Formula Funding by Regents (Table 8)**

Institution/System	FY16 Existing Operating Budget (EOB)	FY17 Recommended	% Change FY16 EOB to FY17 Rec.
LSU - Alexandria	\$5,109,749	\$3,838,686	-25%
LSU - Baton Rouge	\$113,909,238	\$85,574,022	-25%
LSU - Eunice	\$4,559,805	\$3,425,542	-25%
LSU - Shreveport	\$6,962,271	\$5,230,388	-25%
LSU HSC - New Orleans*	\$72,299,902	\$55,860,602	-23%
LSU HSC - Shreveport*	\$86,937,346	\$40,747,241	-53%
LSU Ag Center*	\$65,779,706	\$47,923,727	-27%
Pennington*	\$16,151,477	\$9,147,540	-43%
<b>LSU System Total</b>	<b>\$371,709,494</b>	<b>\$251,747,747</b>	<b>-32%</b>
SU Board*	\$7,730,623	\$2,448,117	-68%
SU - Baton Rouge	\$20,151,090	\$15,138,455	-25%
SU - New Orleans	\$5,730,139	\$4,304,752	-25%
SU - Shreveport	\$4,611,169	\$3,464,129	-25%
SU Law Center	\$3,905,120	\$2,933,711	-25%
SU Ag Center	\$2,346,654	\$1,762,918	-25%
<b>SU System Total</b>	<b>\$44,474,795</b>	<b>\$30,052,082</b>	<b>-32%</b>
UL Board	\$1,028,008	\$772,288	-25%
Grambling *	\$14,352,070	\$9,288,848	-35%
LA Tech	\$26,443,894	\$19,865,907	-25%
McNeese	\$16,979,189	\$12,755,572	-25%
Nicholls	\$14,427,254	\$10,838,437	-25%
Northwestern	\$19,803,107	\$14,877,033	-25%
Southeastern	\$28,564,495	\$21,459,003	-25%
UL Lafayette	\$43,624,028	\$32,772,439	-25%
UL Monroe	\$23,579,435	\$17,713,990	-25%
UNO	\$28,693,703	\$21,556,071	-25%
<b>UL System Total</b>	<b>\$217,495,183</b>	<b>\$161,899,589</b>	<b>-26%</b>
LCTCS Board	\$7,116,618	\$5,346,341	-25%
Baton Rouge CC	\$14,392,007	\$10,811,958	-25%
Bossier Parish CC*	\$10,454,466	\$5,987,675	-43%
Central LA Technical College	\$5,580,538	\$4,192,365	-25%
Delgado CC*	\$25,296,117	\$18,710,921	-26%
LA Delta CC	\$7,764,392	\$5,832,980	-25%
LA Technical College	\$10,678,364	\$8,022,094	-25%
L. E. Fletcher Technical CC*	\$2,878,496	\$1,977,318	-31%
Northshore Technical CC*	\$4,888,062	\$3,633,516	-26%
Nunez CC*	\$3,286,748	\$2,299,977	-30%
River Parishes CC*	\$3,249,145	\$2,243,875	-31%
South Louisiana CC	\$12,319,454	\$9,254,958	-25%
Sowela Technical CC*	\$6,315,028	\$4,145,869	-34%
LCTCS Online	\$1,289,307	\$968,589	-25%
<b>LCTCS System Total</b>	<b>\$115,508,742</b>	<b>\$83,428,434</b>	<b>-28%</b>
LOSFA			
Administration	\$3,261,171	\$2,449,946	-25%
Scholarships**	\$29,842,486	\$28,993,399	-3%
TOPS***	\$200,091,126	\$0	-100%
<b>LOSFA Total</b>	<b>\$233,194,783</b>	<b>\$31,443,345</b>	<b>-87%</b>
<b>Board of Regents*</b>	<b>\$15,213,434</b>	<b>\$10,571,298</b>	<b>-31%</b>
<b>LUMCON</b>	<b>2,283,493</b>	<b>\$1,715,468</b>	<b>-25%</b>
<b>Statewide Total</b>	<b>\$999,879,924</b>	<b>\$570,857,964</b>	<b>-43%</b>

\*Includes reduction of one-time SGF appropriation.

\*\*Maintains static funding of \$26.4 M for GO Grants as mentioned in the Executive Budget.

\*\*\*There is no SGF available for TOPS, only \$60 M is available in Tobacco Settlement Fund, which represents an 80% reduction in TOPS funding.